

Management Accounting Change

A Case Study of Private Equity Owned Healthcare Company

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Abstract

The goal of this thesis was to study management accounting changes that took place at a healthcare company that was acquired by private equity investors. These changes were categorized by using management control systems framework developed by Malmi and Brown (2008) and subsequently analysed from an institutional perspective utilizing institutional framework by Burns and Scapens (2000).

Private equity investors are known for implementing several changes within the companies they own, providing a window into studying the topic of management accounting change. In the context of Malmi and Brown's (2008) framework, this case study's changes constitute cybernetic, administrative and cultural changes. The empirical findings regarding the management accounting change from institutional perspective somewhat contradict with the institutional framework in terms of process of change and process of institutionalization. This case study's findings showcase that the process of institutionalization may not be as challenging as Burns and Scapens picture it to be, especially if an organization's prevailing institutions are weak and transient.

Keywords management accounting change, institutional change, private equity

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1. Introduction

The goal of this paper is to study management accounting (MA) changes that took place in a Finnish healthcare company after it was acquired by private equity (PE) investors.

Management accounting can be considered to be at the very core of organizational management. Providing information MA experts enable senior management to make decisions to run organizations. One could think of MA as an internal support mechanism for managers (Burns and Vaivio, 2001). On the other hand, management accounting systems can be seen as management's control systems if they are put in place by managers to direct employee behavior (Zimmerman, 1997, 2001).

On the face of it, management accounting as a function of organization seems a logical and easy to understand, supporting managers' decision making with information. However, practically no organization, in the long run, can maintain competitive edge without changing. This applies to MA function of organizations as well. For example, if a company uses a lagging cost analysis model compared to its' industrial peers, is it reasonable to assume this company would also start to lag in terms of profitability and effectiveness over time? As much as organizations need to change to maintain competitiveness in general, so does management accounting as a function. This brings up an interesting concept regarding management accounting: Management accounting change in organizational context. By analyzing MA change in organizational context, it is possible to study how the prevailing organizational institutions affect the implementation processes of management accounting change. This can't be achieved just by analyzing *what* is changed in organizations' management accounting, but also understanding the actual *process* of MA change. Therefore, this paper is not only interested in what parts of the healthcare company's management accounting changed after it was acquired by the PE, but also how the process of MA change came about.

In management accounting academia there's been a lot of research regarding MA change, but the majority of this has focused on MA change as an outcome, rather than a process (Covaleski et al., 1993). This is understandable, considering outcome focused MA change research can give new insights into what are the best management accounting practices considering different contingent factors, such as environmental uncertainty. Burns and Scapens (2000) highlight that while research on MA change as an outcome is needed, there should be more studies on MA change as a process i.e. how the implementation of new MA routines and systems unfolds in organizational context; "why and how organization's management accounting becomes what it is, or is not, over time." (Burns and Scapens, 2000;4)

Theoretical frameworks used in this MA change case study are management control systems (MCS) by Malmi and Brown (2008) and institutional framework by Burns and Scapens (2000). The MA changes private equity investors implemented within the healthcare company can be analyzed by using Malmi and Brown's

MCS, whereas the institutional framework by Burns and Scapens can be used to reflect how the actual process of implementing these MA changes materialized.

A central element to this thesis' case study are private equity companies, who seek to acquire a majority stake in businesses, allowing them to shape companies' strategies and implement changes they consider are needed. PE investors have different profiles, some investing in earlier stage businesses and being 'hands on' owners actively managing the company they invest in, whereas some PE companies target more mature businesses pursuing to turn good companies into great ones. A common thing for all PE companies is that they implement changes at companies they own, but the extent how minor or drastic these changes are, depends on the profile of the PE investors. In 1960's 'asset stripping' was a label for PE investors who bought undervalued companies, then closed the businesses and sold the assets (Gilligan and Wright, 2014). On the other side of the PE profile spectrum are 'hands-off, eyes-on' PE companies, who monitor their investment but have basically no input in managing the companies they own, having a more passive approach (Gilligan and Wright, 2014). Therefore, companies acquired by private equity investors are interesting from management accounting change perspective as they are often likely to go through rather major organizational changes.

The rest of this thesis is structured in the following order. Second section covers concepts associated with the MA change and the theoretical frameworks used in the case study of this thesis. In the third section the method and challenges of conducting an MA case study are presented. Fourth section constitutes the case study's empirical findings. Fifth section provides analysis discussion of the empirical findings and the sixth section concludes the thesis.

2. Theoretical framework

Malmi and Brown's (2008) framework of management control systems was used to categorize the MA changes the PE implemented within the healthcare company. To develop understanding of the actual process behind the implementation of the MA changes, Burns and Scapens' (2000) institutional framework was utilized. In their work Burns and Scapens (2000) make use of *Old institutional economics*, "as it provides a focus on organizational routines and their institutionalization" (p.4). Therefore in the context of this case study, the management accounting changes were studied from an institutional perspective i.e. how the changes in the healthcare company materialized and developed.

Management accounting academia has produced an extensive body of research regarding management control systems. However, there seems to be a difficulty of defining what is exactly meant by MCS, what's the relationship between MCS and MA, and sometimes management accounting and management control systems are used interchangeably (Fisher, 1998). A number of descriptions of MCS exist, some containing overlap while others are quite different from each other (Abernethy et.al, 1996). In his view Chenhall (2003) considered MCS to be synthesis of MA systems and cultural controls, whereas Burns and Scapens (2000) would include cultural controls as a part of MA systems. In this paper Burns and Scapens' (2000) somewhat broader concept of MA will be adopted, which in addition to "traditional" MA components also includes cultural controls and organizational structures as a part of management accounting.

Zimmerman (1997, 2001) advocated a distinction between decision making and control when differentiating between MCS and MA. Some accounting systems in organizations are established to provide information to support decision making, while other accounting systems are put in place to control employee activities and behavior. If managers employ new accounting systems to produce information for their subordinates decision making, and if goal congruence of these subordinates is left unmonitored, then the system is a decision support mechanism rather than a control mechanism. If an accounting system is used by managers to guide employee's behavior, it is a control system.

Malmi and Brown (2008) started to parse the definition of MCS from the perspective of the managerial problem of directing employee behavior. Systems, rules, values and other activities management put in place to direct employee behavior should be called management controls. If these are complete systems, instead of simple rules, they should be called management control systems. These are in contrast to accounting systems, that are designed to support decision making at any organizational level, but if these systems are not monitored by managers, they should not be termed MCS, but management accounting systems.

According to Simons (1995; 5) "MCS are the formal, information based routines and procedures managers use to maintain or alter patterns in organizational activities." Simons argues that these

information based systems become control systems when managers use them to influence organizational patterns. If not used for the purpose of altering or maintaining organizational structures, these information systems are decision support mechanisms, but not control systems. On the other hand Chenhall (2003) had narrower view, as he considered that accounting systems are never control systems, but always designed as a decision support mechanisms.

2.1 Management control systems by Malmi and Brown (2008)

T. Malmi, D.A. Brown / Management Accounting Research 19 (2008) 287–300

Cultural Controls						
Clans		Values			Symbols	
Planning		Cybernetic Controls				Reward and Compensation
Long range planning	Action planning	Budgets	Financial Measurement Systems	Non Financial Measurement Systems	Hybrid Measurement Systems	
Administrative Controls						
Governance Structure		Organisation Structure			Policies and Procedures	

Fig. 1. Management control systems package.

Management control systems by Malmi and Brown builds on four decades of MCS research and is influenced by the likes of Chenhall 2003; Fisher, 1995, 1998; Flamholtz et al., 1985; Langfield-Smith, 1997; Otley, 1980; Simons, 1995.

Malmi and Brown deconstructed MCS by dividing it into five different control areas:

- Planning
- Administrative Controls
- Cybernetic Controls
- Reward and Compensation
- Cultural Controls

2.1.1 Planning

Planning enables management to set objectives across different functions of an organization, thus directing employee behavior. In addition, planning sets the desired *level* of behavior required from members of the organization. Furthermore, “planning enables co-ordination through aligning a set of goals across the functional areas of an organization, thereby controlling the activities of groups and individuals to ensure they are in line with desired organizational outcomes.” (Malmi and Brown, 2008; 291) Malmi and Brown divide planning into short term tactically focused action planning and more strategically focused long range planning.

2.1.2 Cybernetic Controls

Malmi and Brown (2008) listed four components of cybernetic controls

- Budgeting
- Financial measures
- Non-financial measures
- Hybrids (financial and non-financial measures)

For a long time cybernetic principles have been associated with organizational control (Arrow, 1964; Daft, 1983; Koontz and O'Donnel, 1968; Mintzberg, 1979; Strank, 1983). Green and Welsh's (1988) definition of cybernetic controls was “a process in which a feedback loop is represented by using standards of performance, measuring system performance, comparing that performance to standards, feeding back information about unwanted variances in the systems, and modifying the system's comportment”(p.289).

Budgeting is one of the foundation principles of management control systems and its use is almost universal (Bunce et al., 1995). Hansen credited this to budgeting's “ability to weave together all the disparate threads of an organization into a comprehensive plan that serves many different purposes, particularly performance planning and ex post evaluation of actual performance vis a vis the plan” (Hansen et al., 2003: p. 96). Malmi and Brown (2008) elaborated that “while budgeting may have number of uses, including integration of processes and resource allocation decisions, as a control mechanism its focus is on planning acceptable levels of behavior and evaluating performance against those plans”(p.293).

Financial measures used by managers are common way to set targets and direct subordinates behavior. Malmi and Brown (2008) make a distinction between budget and financial measures, stating that “budget is a broad, complete technique, whereas financial performance measures can be used in a narrow simple fashion in target setting”(p.293). Return on investment or EBITDA are examples of typical financial measures.

Organizations are increasingly focusing on *non-financial measures* as a part of management control systems to maintain competitiveness, as focusing only on financial measures may give somewhat limited view on organization's performance. Also increase in other management initiatives, TQM for instance, is partly causing this (Ittner and Larcker, 1998). Fourth component of cybernetic controls is *hybrid* performance measurement system, which includes both financial and non-financial information. Balanced scorecard is an example of a hybrid that has become popular lately (Ittner and Larcker et al., 1998).

2.1.3 Reward and compensation controls

Reward and compensation controls pursue to improve the efficiency of organizational members by unifying the interests between the organizational members and the organization (Bonner and Sprinkle, 2002). If managers want to control and stimulate employee behavior to certain direction, implementation of reward and compensation systems is a common tool in trying to reach target goals.

2.1.4 Administrative controls

"Administrative control systems direct employee behavior through the organizing of individuals and groups, the monitoring of behavior and who you make employees accountable to for their behavior, and the process of specifying how tasks or behaviors are to be performed or not performed" (Malmi and Brown, 2008; 293). In their definition, Malmi and Brown consider administrative controls to construct of three different areas:

- Organization design and structure
- Governance structures within the firm
- Procedures and policies

Organizational design is a control mechanism, as different organizational structures can be used to stimulate different organizational activities (Abernethy et.al, 1996). In his definition Flamholtz (1983) argued that organizational structure contributes to control by "reducing the variability of behavior and, in turn, increasing its predictability" (p.158). Malmi and Brown (2008) consider organizational structure to be part of management's control systems, although some researchers don't agree with this view, stating organization's structure is imposed on managers as a contingent factor and thus not for them to utilize as a control mechanism.

The governance structure as part of administrative controls involves organization's board composition as well as different steering groups and management teams (Malmi and Brown, 2008). Abernethy and Chua (1996) argue that governance imposes accountability within the organization. Malmi and Brown (2008) continue this by stating governance structures also create "systems which are in place to ensure that

representatives of the various functions and organizational units meet to co-ordinate their activities both vertically and horizontally.”(p.294)

2.1.5 Cultural controls

Flamholtz’s (1985) definition of culture is “the set of values, beliefs and social norms which tend to be shared by organizations’ members and, in turn, influence their thoughts and actions” (p.158). This view enjoys broad support in accounting-related research (Birnberg and Snodgrass, 1988; Dent, 1991; Pratt and Beaulieu, 1992). While organizational culture is something that might sometimes be out of management’s reach, it is still part control systems if it can be used to direct employee behavior (Clegg et al., 2005). Malmi and Brown (2008) define cultural controls to consist of three areas:

- Value controls (Simons,1995)
- Symbol controls (Schein, 1997)
- Clan controls (Ouchi, 1979)

Examples of *value controls* are organization’s mission, vision, logos, credos and senior management’s statements (Simons, 1995). These values are communicated throughout the organization in order to establish the right set of beliefs among employees. In his view, Schein (1997) described *symbol controls* as a way to create a particular kind of organizational culture. Ways to achieve this include designing specifically characteristic work spaces or requiring certain dress code among employees. Third area of cultural controls is *clan controls* developed by Ouchi (1979). Clan control is based on an idea of how different subsets of organization impose their values and skills on new members of those subsets.

2.2 Institutional framework by Burns and Scapens (2000)

In order to understand the *process* of MA changes PE implemented within the healthcare company, institutional framework by Burns and Scapens was used in this case study.

Burns and Scapens (2000) institutional framework posits that management accounting systems and practices constitute organizational rules and routines. “The framework explores the complex and ongoing relationship between actions and institutions, and demonstrates the importance of organizational routines and institutions in shaping the processes of management accounting change.”(p.4) Burns and Scapens (2000) make use of institutional theory called *old institutional economics* (OIE) in forming their institutional framework as it “provides a focus on organizational routines and their institutionalization.” (p.4)

“Management accounting is perceived as a routine, and potentially institutionalized, organizational practice, thus when analyzing management accounting change the focus is on studying changes in

organizational routines” (Burns and Scapens, 2000; p.5). Burns and Scapens start building the institutional framework from a dualistic assumption that “management accounting practices can both shape and be shaped by the institutions which govern organizational activity” (p.5). Being institutionalized means MA can endorse the ‘taken for granted’ ideas of behaving in an organization (Mouritsen, 1994).

Key concepts to this framework are rules, routines, actions and institutions in organizational context, which are further explained in the next section.

2.2.1 Rules, routines, actions and institutions

Organization’s management accounting systems can be considered to be end product of rules and routines put in place and reproduced over time. Rules tell ‘how things should be done’, while routines are ‘how things are actually done’ (see Scapens, 1994). An example of management accounting rule is a budgeting procedure, picturing how budgeting should be done. While this new approach to budgeting can be formally recognized in the organization, it is possible the actual way of doing budgeting never changes and remains intact. Thus the routine of doing budgeting in the organization doesn’t change, and adapting the new rule is offset by the existing routine. A common occasion for implementing new MA rules is after acquisition, if new owners consider that MA changes within the acquired company are needed. However, it’s not uncommon to see problems arise after trying to implement new rules on acquired company’s management accounting. Burns and Scapens (2000) state that in situation like this typical reason is resistance within the acquired organization due to strong institutions and routines in place and unwillingness to change them. However, during enactment of new MA rules routines will develop and these routines will be reproduced (Nelson and Winter, 1982). This leads to rules being established and new routines emerging (Burns and Scapens, 2000). This process can also happen vice versa, new rules emerging from routines, leading to formalizing these routines as new rules of MA.

In summary, rules are the formal statements how processes should be conducted, whereas routines are the practices how these processes are actually conducted. “Rules are normally changed only at discrete intervals; but routines have the potential to be in cumulative process of change as they continue to be reproduced. The extent to which certain routines are changed however, can depend on other existing rules and routines, including control procedures.” (Burns and Scapens, 2000; p.7) From MA perspective, rules are the formal MA systems, but routines are the MA practices in use. (Burns and Scapens, 2000)

In addition to rules and routines, Burns and Scapens (2000) institutional framework uses concepts of institutions and actions. Being institutionalized means a certain pattern of behavior, or action, has become integrated into organization’s code of conduct. If certain management accounting routines have been reproduced over a long period of time, these routines become unquestioned way of acting for organizational members as they are done automatically, eventually becoming institutionalized. Essentially, institutions are

organization's members' beliefs of how things should be done and viewed, or as Burns and Scapens put it 'shared taken for granted assumptions'. These beliefs and assumptions, institutions, then modify actions of organizational members. However, some institutions are established faster than the others, and all institutions are not established to the same degree (Tolbert and Zucker, 1996). Naturally, some institutions are more accepted than the others. Institutions that enjoy broad acceptance are more likely to remain unchanged and continue to influence action, whereas unpopular institutions are more prone to changes (Barley and Tolbert, 1997).

2.2.2 The process of institutionalization

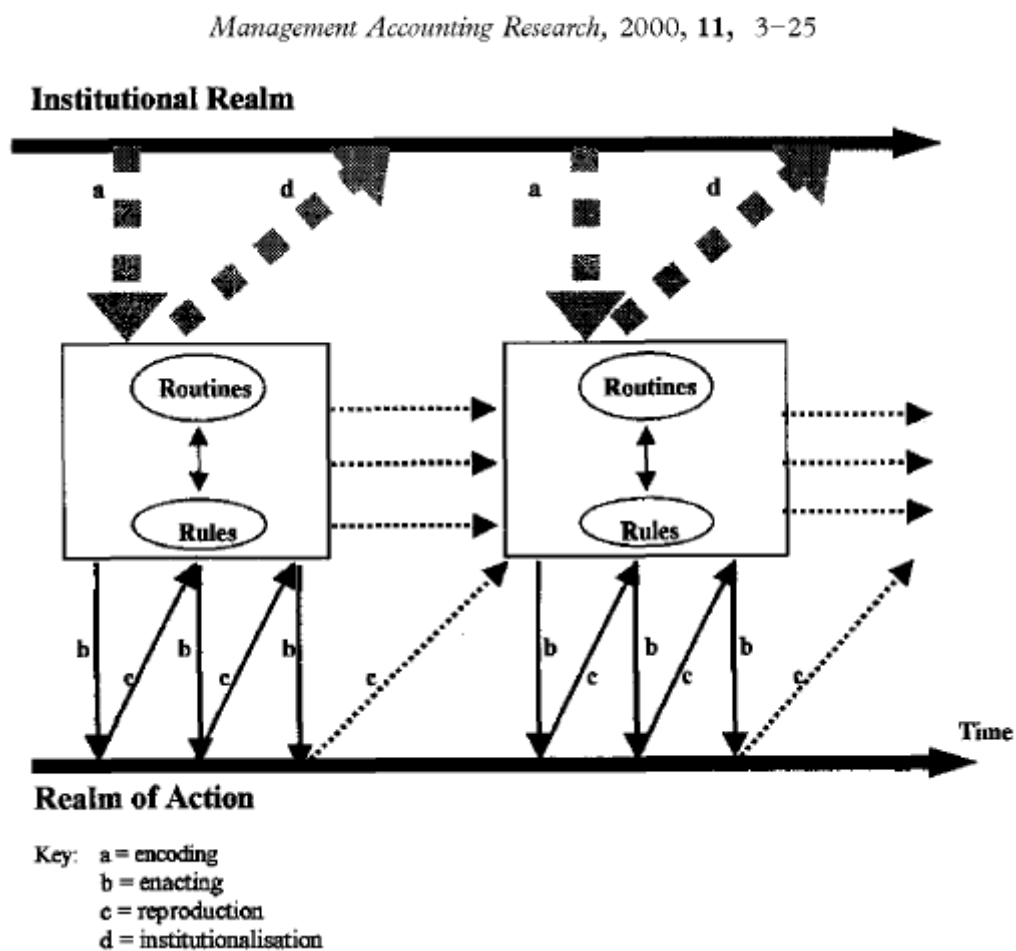


Figure 2. The process of institutionalization

In Figure 2 the process of institutionalization is pictured. Vertical arrow on top represents institutional realm, whereas vertical arrow at the bottom represents realm of action. "Both realms are ongoing in a cumulative process of change through time, however change processes in the institutional realm occur over longer periods of time than change in the realm of action. Institutions have an immediate impact on action i.e. how members of organization act and behave, but actions affect institutions only over time, if at all. The central

part of the figure illustrates the way, in which rules and routines act as the modalities which link the institutional realm and the realm of action” (Burns and Scapens, 2000; 10). Arrow a (encoding) depicts institutions effect on rules and routines. Organizational routines are influenced by the prevailing institutions. Routines will form new rules which, over time, results in revising or strengthening the existing routines. As explained earlier, implementing new rules can also affect existing routines. However the extent to which this happens, depends on the contrast in nature between new rules and existing routines. In arrow b (enacting) rules and routines materialize, as members of organization act according to them. Rules and routines enter the realm of action, so to speak. Arrow c (reproduction) emphasizes reproduction of organization’s members’ actions. This reproduction can further entrench the prevailing rules and routines. It is also possible that actors start to question the validity of existing rules and routines, which over time could start the process of shaping new rules and routines. Arrow d (institutionalization) depicts how routines and rules can eventually become organizational institutions. In this transition rules and routines are no more ‘how things should be done’ or ‘how things are actually done’, but they have transcended organizational manners and become a part of unquestionable beliefs and taken for granted assumptions, guiding the actions of the organizational members. “Institutions always exist prior to any attempt by the actors to introduce change, and will therefore shape the processes of change” (see Bashkar, 1989). Burns and Scapens (2000) add to Bashkar by highlighting the importance of analyzing the existing institutions when studying management accounting change.

2.2.3 Institutional change – three dichotomies

In previous section the process of institutionalization and key concepts to the institutional framework were introduced and established. For categorizing and defining between different types of change processes, Burns and Scapens (2000) came up with what they call three dichotomies:

- Formal vs. informal management accounting change
- Revolutionary vs. evolutionary management accounting change
- Regressive vs. progressive management accounting change

Formal vs. informal management accounting change

Formal change is rooted in conscious action, for example when new rules are introduced or through the behavior of a strong individual (see Rutherford, 1994). In contrast, informal change occurs in cumulative process over time. Tracking of informal change can be challenging, as there is no distinct ‘point’ when the change takes place. Existing MA routines are an example of accumulation of informal changes, as MA actions have been reproduced in changing conditions, eventually leading to the formation of those MA routines. Introducing new formal MA changes (rules), such as new budgeting procedure, can be somewhat

straightforward, but in order for this new budgeting rule to become implemented i.e. actual way of doing budgeting (become routinized), formal changes usually need to be accompanied by informal changes in order to be effective. Thus the success of formal MA change depends on whether the informal MA change occurs concurrently. In line with Burns and Scapens (2000) assumption, it's reasonable to expect that introducing top-down MA changes in organization will have the biggest effect on formal rules of management accounting systems, but rather indirect effect on informal processes which are the key to accessing the actual MA routines. Bottom-up changes on the other hand are more likely to have direct impact on informal processes, as they are initiated by those who actually use MA and are aware of the existing routines. As a result (of bottom-up initiated changes) the formal processes will usually come to resemble the informal processes.

Revolutionary vs. evolutionary management accounting change

Nelson and Winter (1982) emphasize the importance of dichotomy between evolutionary and revolutionary change in any MA change study. The major distinction between the two is the extent to which MA change affects prevailing institutions and routines. Revolutionary change refers to a large scale revamp in existing institutions and routines, whereas evolutionary change results only in minor changes. Burns and Scapens (2000) remind that small MA changes can have broad effects on the existing institutions and, on the other hand, big MA changes can end up having only minor effects on institutions and routines.

Regressive vs. progressive management accounting change

Tool (1993) introduced the dichotomy between regressive and progressive change (see also Bush, 1987). The dichotomy is based on a concept whether organizational structures allow or deny the development of new MA activities. Tool expressed the dichotomy in terms of 'ceremonial' and 'instrumental' behavior. Ceremonial refers to organizational structure which hinders the seeking of new and best solutions to MA systems by maintaining the existing (political) power structures, whereas instrumental structure encourages individuals to develop best MA practices. Tool named ceremonial behavior as 'regressive MA change' to describe how it opposes institutional change by trying to maintain the existing conditions. For instrumental behavior Tool adopted the term 'progressive MA change', encapsulating the idea of an ongoing development of institutions and displacing ceremonial behavior.

2.3 Merging the two theories

In this case study management control systems framework by Malmi and Brown (2008) was first used to categorize and conceptualize the changes the PE investors implemented within the healthcare company. After developing an understanding of what changes the PE implemented, Burns and Scapens (2000)

institutional framework was used to analyze how the actual process of implementing these changes developed. These two theories were chosen for this case study analysis because of how they both assume a somewhat broader understanding of management accounting. For example, both of these frameworks consider organizational structures and cultures to be vital part of management accounting, whereas some researchers and frameworks have much narrower view of management accounting in organizational context as explained earlier. Therefore it was important to choose two theories which share the same principles and key ideas of management accounting and changes thereof although these two theories are used for different purposes, MCS for categorizing the MA changes and the institutional framework for understanding the MA change process. The two frameworks also helped to formulate relevant questions for the interviews, thus making the data collection and subsequent data analysis more comprehending.

3. Method

To acquire information of sufficient depth and quality for this case study, a qualitative approach was chosen. In order to understand and analyze management accounting changes in this particular case, a quantitative method would've lacked in explicit nature of information that was needed to conduct this study. The challenge when studying a management accounting change, and especially the process of MA change, are the somewhat ambiguous concepts and terms associated with the subject matter. For instance, the other framework used in this case study, the institutional framework by Burns and Scapens (2000), constitutes several highly abstract ideas such as organizational institutions and routines, which can be difficult to point out and track down in an applied case study. This in itself excludes the possibility of conducting a quantitative MA change study, and even when having a qualitative approach, the challenge of certain aspects such as institutions and routines still remains as they mainly exist in the realm of organization's members' personal experiences. As these concepts are subject to a rather high degree of personal interpretation, it should be noted that a completely objective MA change case study is somewhat challenging, if not impossible, to conduct. This not only depends on how the researcher makes subjective analysis and conclusions based on the data, but the data itself can be distorted as it is collected in interviews, which are based on organizational member's subjective opinions and perceptions. This problem came up also in one of the interviews, when the interviewee replied to a question by saying "well, the answer depends on who you ask that question within this company". In order to decrease the distortion of the data and the subsequent analysis, interviews were conducted with three different people. Had only one people been interviewed for this case study, the analysis would've been highly susceptible to this one person's personal judgements and perceptions, and possibly distorting the final conclusion drawn from this MA

change case study. As a whole the MA change is a complicated field of study, as there aren't definitive or explicit answers.

To obtain data, three semi-structured interviews were conducted. The questions and themes of the interviews were sent to interviewees before the interviews took place. Regardless, the structure of the interviews was not fixed to follow only these specific questions, the questions rather served as a platform for the topic to be discussed. All of the interviewees had been working at their respective positions for most of the PE ownership of the healthcare company, validating their views on the topic. At the healthcare company interviews were conducted with CEO, CFO and business controller. An interview was also scheduled with the PE company's country manager, who also serves as member of the board for the healthcare company. Due to the country manager's congested schedule this interview was delayed four times and eventually had to be cancelled due to the approaching deadline for this thesis.

4. Empirical findings

This section covers the changes the PE implemented within the healthcare company and how the prevailing institutions enabled the change process to commence.

4.1 Management accounting changes the PE implemented

Before the private equity investors took over the healthcare company through a leveraged buyout, it was listed on public stock exchange. In the early 2000's, the healthcare company had grown rapidly through acquisitions, mainly by buying several smaller independent healthcare clinics. The problem was that these different clinics were never properly integrated into the parent company's management accounting systems.

"Before the PE bought us, the structure of this company was incredibly fragmented. We were basically several companies although we were supposed to be one company. When the PE came in, they integrated what seemed to be an endless amount of loose ends within this company and actually made this into a proper business. This meant integration and centralizing of all the internal reporting, procurement, financial accounts and statements, software and different platforms. The PE investors also wanted to heavily emphasize the importance of financial ratios. As a CFO this made my collaboration with them smooth as we spoke the same language, money." (CFO)

The several smaller clinics the healthcare company had bought in the early 2000's had huge potential for the company, but due to the incomplete integration of these clinics this potential was never fully reached. However, after the PE took the healthcare company private from the stock exchange, the process towards reaching that full potential began through integration of several MA systems and practices as the CFO described. The PE investors felt that major changes were needed to improve the healthcare company's performance. This resulted in the PE employing a very 'hands-on' approach after the acquisition also in terms of personnel.

"When the PE took over, several key employee positions were changed. For example, we had four or five of their own business controllers working for us for a while. For a couple of months we also had an interim CFO who was an employee of the PE company before the new CFO was appointed. Eventually they also replaced the CEO." (Business Controller)

The private equity investors considered the change in key management positions was needed to turn the company around. By changing the managers the PE also lowered the resistance towards new MA and other organizational changes that were to be implemented later. The old managers were entrenched in their own thinking and opinions, and would've made the change process more challenging due to their disagreements with the PE over certain aspects of the business. With the new management the changes were easier to implement from the PE's perspective. The business controller also agreed with the CFO's view that the financials were heavily emphasized after the takeover.

"First and foremost, they wanted to emphasize the cash flow. Financial target ratios they wanted us to achieve were very strict and ambitious, the company's cost structure was thoroughly examined and all the different investment projects were now required to go through a thorough business case analysis." (Business Controller)

The financial aspects of the business were prioritized as the PE had used high financial leverage for the acquisition, something private equity investors are known for. The PE required a detailed analysis of the company's cost structure to get rid of the unnecessary expenses that were not affecting the core business. The healthcare company was also required to hit very ambitious financial ratios, a clear sign from the PE about the level of performance they demanded. The policy regarding investments became much stricter as the attention to detail in analysis and investment calculations became much more prominent as all the investments were now required to go through a business case analysis.

The healthcare company's balance sheet went also through a proper examination. After the several acquisitions in the early 2000's different assets had accumulated into the balance sheet, and these

possessions had nothing do with the core healthcare business. The PE wanted to dispose of these non-performing assets.

“You could say they wanted to some cleaning when it came to the balance sheet. For example we owned shares of random public companies, which had nothing to do with our core business. The PE sought the highest possible yield and reward for their risk and wanted to squeeze everything they could out of the balance sheet. Also a rather significant laboratory department they deemed unnecessary, was sold.” (CFO)

The PE also turned to external consultants in improving the healthcare company's performance. Europe's leading consultant agency in occupational healthcare was hired to revise the healthcare company's performance metrics. The consultants developed an entire new program that would be a better fit for the healthcare company to start improving its' care quality, leading to better financial results.

“The consultants who were hired had developed several occupational healthcare business models in European context. First they analyzed what changes were needed in our business processes. Then they proved this with references and all the medical units and departments started to conduct the changes the consultants deemed necessary. Examples of processes that lacked and needed more concrete measuring were effectiveness of medical care, process lead time of employees involved in healthcare such as doctors and nurses and how the doctors conducted invoicing. Developing metrics and measuring these processes resulted in higher care quality and over time it reflected in our financials.” (Business Controller)

Also a new organizational structure was created for the purpose of better communication between different departments within the healthcare company. As the CFO explained the structure of the healthcare company had been very fragmented due to the incomplete integration of the acquired healthcare clinics throughout the early 2000's. In order to increase horizontal information flow the new CEO appointed by the PE created a matrix organizational structure for the healthcare company. This new structure increased flexibility and sharing resources between different departments and units, which over time led to better healthcare quality and financial results.

4.2 Enabling the change process

When the private equity investors acquired the healthcare business, the general direction of the company was somewhat lost or unknown. The PE wanted to clarify the direction where they wanted to take the business. According to the CEO, the particular PE which took over the healthcare company was the right fit for this job.

“When private equity investors acquire a business, they usually have only one agenda, a clear plan where they want to go with the business, whereas companies over time have several agendas which are revised and executed throughout business and life cycles. The agenda of this company was unclear, and when the PE came in, they clarified this agenda with the company’s management. PE investors differ on many levels, but one way to look at it is if they look to expand the business or make a turnaround. At that time, this company definitely needed a PE that’s specialized in turnarounds, whereas if it was bought by a PE that’s known for expanding business, it would’ve not been a good fit. Back then the changes that were required for this company to turn its’ course were rather significant, and that’s why the PE also needed to be of the right profile and caliber.” (CEO)

As covered in the previous section, the PE implemented several changes within the healthcare company. Majority of these changes were introduced top-down, which meant a possible resistance and a clash between the PE (and the top management) and the healthcare company employees. Though according to the CEO, the changes were broadly accepted among the employees:

“What happens when an employee considers a change process is something he/she can’t accept or go through? They vote with their feet. When I was appointed as the CEO by the PE, we started implementing several changes we considered necessary. It was around 2010, so the financial crisis and the previous poor performance of this company had really affected the financial situation of this business. I believe most of the employees were aware of this, and accepted the changes we implemented as necessary. ... When you’re working with PE investors as a CEO, it’s very similar to working as an entrepreneur, you have to buy into their vision. It’s very different to, say, managers of companies like Nokia who are basically glorified public officers.” (CEO)

The medical professionals neither expressed any larger sign of resistance towards the changes, or the PE as an owner of the company in general.

The PE didn't want to intervene in the core work medical professionals do, which is taking care of the patients. It goes without saying, but the PE knew the medical professionals know better when it comes to taking care of the patients. On the other hand the medical professionals didn't express resistance towards the changes or the more financially focused management of the company, as it was generally pretty well known that the company's financial situation wasn't great." (CFO)

Although some of the changes such as the new performance metrics for the medical processes of the business were implemented and this led to adjustments in the processes of the medical professionals, these changes were no problem for them because the changes didn't intervene with the core of their work, which was taking care of the patients. The business controller agreed with the CEO and the CFO that the atmosphere within the healthcare company towards the new changes was open and not reluctant, and credited this to two things: The company's financial situation was generally well known and the proof the external consultants provided about the changes that were needed.

"The PE spent a lot of resources, namely their own employees, on making the turnaround of this company. They had a very 'hands-on' approach, and you could see this at the 'factory floor'. I would say we were at the same wavelength with the PE and their employees pretty much from the start. Most people were aware of the difficult financial situation of the company, and later the external consultants hired by the PE provided proof and references how the business processes could be improved. People were aware that the change was needed." (Business Controller)

5. Analysis

In this section the empirical findings are discussed in the context of the theoretical frameworks presented previously in this paper. As noted earlier this thesis assumes a broader concept of management accounting similar to Burns and Scapens (2000). In addition to traditional MA components this approach includes organizational and cultural controls as parts of MA.

5.1 Empirical findings summary

In the context of management control systems framework by Malmi and Brown (2008), the PE implemented administrative, cybernetic and cultural controls within the healthcare company. Integration of the different clinics and MA systems and creating the new matrix organizational structure for the purpose of better communication and resource sharing between units and departments can be categorized as administrative

controls. Cybernetic controls constitute emphasizing cash flow and financial ratios, requiring more detailed and thorough investment scenario calculations, developing new KPI's for the healthcare processes and integrating the new business model for occupational healthcare designed by the external consultants. The cultural controls are the changes in the healthcare company's personnel. The PE appointed new top managers, such as the new CEO, and employed their own professionals such as business controllers to work at the healthcare company.

5.2 Institutional change

It has been said by quite many that people resist change (Strebel, 1996). The problem with a generalization like this is that it overlooks the contingent factors of the environment where the change is supposed to take place. If members of an organization feel as if there is no external pressure to conduct a change process, such as no threat of becoming unemployed, then it is rather logical to expect that the people want the status quo to maintain and continue to operate with the existing routines and institutions. But if organizational members are aware of the adverse environmental contingent factors, which over time can lead to adverse effects on the organization and the members thereof if changes are not commenced, then it is reasonable to assume that changing the existing routines and institutions becomes much more attainable. This is what seems to be the defining factor in this case study's institutional perspective. As the healthcare company's financial situation was unstable after a period of poor performance coupled with the ongoing financial crisis, the members of the organization became aware of the difficult situation. In other words, the contingent factors had weakened the healthcare company's institutions, as the company's challenging financial situation made the atmosphere among employees less resistant towards changes.

Most of the implemented cybernetic and administrative control changes were initiated top-down (formal MA change). According to the Burns and Scapens (2000) the top-down approach is challenging if the intention is to access organizational routines and institutions. Burns and Scapens (2000) argue that for actions to become routines and eventually institutions, there needs to be a sufficient amount of reproduction (Figure 2, arrow c). However, this assumption doesn't seem to completely hold in the context of this case study. The formal top-down changes the PE implemented were quickly adopted within the healthcare company. This can be credited to the weak institutions within the healthcare company in the first place which resulted from the unstable financial situation as organizational members were aware that changes were needed. Whether these top-down initiated changes were revolutionary or evolutionary i.e. how much they exactly affected the existing institutions in addition to the existing routines, is challenging to analyze. The new routines were adopted fast, but how long it took for these routines to become institutionalized (Figure 2, arrow d)? According to Burns and Scapens (2000) major MA changes can have small effect on institutions and on the other hand minor MA changes can have broad effect on institutions.

The cybernetic and administrative control changes the PE implemented were of the major magnitude, but this doesn't automatically result in major institutional changes. It is reasonable to assume that the new MA routines were institutionalized over time but during which time period exactly is hard to grasp, as the organizational institution is a highly abstract concept that exists only in organizational members' cognition (Burns and Scapens, 2000). This observation of quickly adopting new top-down initiated routines applies to both the cybernetic and the administrative controls the PE implemented. The replacement of the top managers, the cultural control the PE implemented, can be considered as a progressive change. The former management disagreed with the PE over certain aspects of the company's business and was unwilling to go through with some of the changes the PE required. The former management's conduct can be considered as ceremonial behavior as they wanted to hold on to the existing institutions, but the subsequent replacement of the management personnel led to instrumental behavior and progressive change as it enabled the implementation of new ideas within the organization.

6. Conclusions

The aim of this thesis was to study management accounting changes that took place at a healthcare company that was acquired by private equity investors. For the purpose of categorizing the changes the PE implemented, management control systems framework by Malmi and Brown (2008) was used. These changes constitute administrative, cybernetic and cultural control systems. Burns and Scapens' (2000) institutional framework was utilized to facilitate understanding of the change process. The findings of this case study partially disagree with the institutional framework's process of institutionalization -concept. Burns and Scapens (2000) argue that formal top-down initiated MA changes require extensive reproduction among organizational members before these changes are routinized and later possibly institutionalized. According to the data and the analysis of the interaction between the PE and the healthcare company, this was not the case. Instead of extensive reproduction, this part was for a lack of a better word 'skipped', as the healthcare company's employees adopted the new routines on the fly. This can be explained by the low resistance towards the changes within the healthcare company, which on the other hand can be explained by the weak institutions at the time within the organization. Further, these weak institutions were a result of the employees' awareness of the difficult financial situation. Therefore, Burns and Scapens (2000) institutional framework and the process of institutionalization are perhaps more apt to describe institutional changes at organizations that have rather strong institutions in the first place. Organizations such as this case study's healthcare company that have weaker and more transient institutions may not be as optimal for the Burns and Scapens (2000) institutional framework. This conclusion by no means refutes Burns and Scapens' (2000) institutional framework, but rather illustrates the incredibly complex topic that is the management accounting change.

It's noteworthy to mention that analyzing the medical professionals' institutional stance was basically excluded from this case study. This is a direct result of how the PE conducted implementing the changes. The PE didn't want to interfere with the core tasks of the medical professionals, apart from slight adjustments to the processes, because they knew the medical professionals had the competence to carry on their main task that was taking care of the patients. In a sense, they were an autonomous side in this MA change exercise whose routines and institutions were never tried to expose to changes, and therefore remained intact.

Possible research topics for the future include a more in depth analysis of how the strength of prevailing organizational institutions or the lack thereof enables or prevents management accounting changes. Studying MA changes at an organization that has very strong institutions would also be interesting from the perspective of testing how Burns and Scapens (2000) institutional framework holds up in those circumstances. On the other hand, research on whether private equity investors systematically tend to buy companies that have weaker and more transient institutions would also explain how the change process is usually rather extensive in PE owned organizations.

7. References

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Interviews:

- 1) CEO, The healthcare company, 4.5.2018, 22 min
- 2) CFO, The healthcare company, 3.5.2018, 40 min
- 3) Business Controller, The healthcare company, 4.5.2018 24 min

An agreement was made that the names of the company and the representatives would not be published